

Message Text

UNCLASSIFIED

PAGE 01 CALGAR 00548 122053Z

62

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SUBJ: ALBERTA ANNOUNCES NEW OIL/GAS INCENTIVE PLAN

REF: CALGARY A-116, NOV. 21/74

1. ALBERTA,S PREMIER PETER LOUGHEED TODAY ANNOUNCED A 6-POINT INCENTIVE PROGRAM FOR THE PROVINCE'S OIL AND GAS INDUSTRY DESIGNED TO REDUCE THE FLOW OF CANADIAN AND UNITED STATES COMPANIES FROM ALBERTA.

2. ENTITLED THE ALBERTA PETROLEUM EXPLORATION PLAN, THE PROGRAM CENTERS ON THE FOLLOWING SIX POINTS, ALL OF WHICH ARE IMPORTANT TO U.S. COMPANIES ENGAGED IN, OR PLANNING TO PATRICIPATE IN, OIL AND GAS EXPLORATION AND DEVELOPMENT IN ALBERTA.

(A) THE ALBERTA GOVERNMENT WILL RETURN TO THE PETROLEUM INDUSTRY - FROM THE 30 PERCENT CORPORATE TAX WHICH FLOWS TO THE PROVINCE - ALL AMOUNTS THE PROVINCE WOULD RECEIVE AS A RESULT OF THE INCLUSION OF ROYALTIES AND OTHER

UNCLASSIFIED

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PAGE 02 CALGAR 00548 122053Z

PAYMENTS IN COMPUTING TAXABLE INCOME UNDER THE NEW

FEDERAL BUDGET PROVISIONS, WHICH, BY TAX AGREEMENT, ALSO APPLY TO THE ALBERTA PROVINCIAL CORPORATE TAX SYSTEM. THIS WILL RETURN DOLS 130 MILLION TO THE PETROLEUM INDUSTRY IN THE 1975 TAX YEAR.

(B) AN OFF-SET WILL BE PROVIDED BY THE ALBERTA GOVERNMENT FOR INCREASED COSTS IN THE FINDING AND DEVELOPMENT OF CRUDE OIL RESERVES ARISING OUT OF THE RAPIDLY ACCELERATING INFLATIONARY COSTS SITUATION EXPERIENCED RECENTLY BY THE PETROLEUM INDUSTRY. THE SELECT PRICE FOR BOTH OLD OIL AND NEW OIL ABOVE WHICH A SUPPLEMENTARY ROYALTY RATE IS APPLIED WILL BE INCREASED, EFFECTIVE JAN. 1, 1975, FROM DOLS 4.11 PER BARREL TO DOLS 4.71 (034 B-443). THE RESULT WILL BE TO REDUCE THE EFFECTIVE ROYALTY RATE ON OLD OIL FROM APPROX 40 PERCENT TO APPROX 36 PERCENT, AND ON NEW OIL FROM 28 PERCENT TO 27 PERCENT.

(C) THE ALBERTA GOVERNMENT IS INTRODUCING A ROYALTY TAX CREDIT SYSTEM WHEREBY EACH COMPANY PAYING ROYALTIES TO ALBERTA WILL RECEIVE A CREDIT OF AN AMOUNT EQUIVALENT TO FEDERAL CORPORATION TAXES ON ROYALTIES PAID TO ALBERTA UP TO A MINIMUM OF DOLS ONE MILLION FOR EACH TAXATION YEAR. THIS CREDIT WILL BE CALCULATED BY APPLYING THE FEDERAL TAX RATE OF 30 PERCENT TO ROYALTIES INCLUDED IN INCOME FOR THE 1974 TAX YEAR, 28 PERCENT FOR THE 1975 TAX YEAR, AND 25 PERCENT FOR SUBSEQUENT TAX YEARS. ALL BUT ABOUT 30 PERCENT OF THE LARGEST PRODUCING COMPANIES SHOULD RECEIVE THE 30 PERCENT CREDIT, BEING A FULL OFF-SET OF THE NEGATIVE IMPACT OF THE FEDERAL BUDGET.

(D) THE ALBERTA GOVERNMENT WILL MODIFY THE ROYALTY RATE ON OLD NATURAL GAS BY REDUCING THE SUPPLEMENTARY RATE FOR SALES ABOVE THE PRICE OF 72 CENTS PER THOUSAND CUBIC FEET FROM 65 PERCENT TO 50 PERCENT, EFFECTIVE JANUARY 1, 1975. NO CHANGES ARE TO BE MADE IN THE NEW GAS ROYALTY STRUCTURE, WHICH REMAINS AT 35 PERCENT ABOVE A BASE PRICE OF 36 CENTS PER THOUSAND CUBIC FEET.

(E) THE PROVINCIAL GOVERNMENT WILL ENCOURAGE FURTHER
UNCLASSIFIED

UNCLASSIFIED

PAGE 03 CALGAR 00548 122053Z

OIL AND GAS EXPLORATION DRILLING BY INCREASING CREDITS FOR CLASS A FOOTAGE FROM 40 PERCENT TO 50 PERCENT, AND FOR CLASS B FOOTAGE FROM 30 PERCENT TO 37.5 PERCENT.

(F) THE ALBERTA GOVERNMENT INTENDS TO REDUCE ITS SUPPLEMENTARY ROYALTY RATE ON EXISTING CRUDE OIL PRODUCTION AS THE PRICE INCREASES ABOVE DOLS 6.50 PER BARREL.

3. VIRTUALLY ALL OF THE ABOVE MEASURES ARE DESIGNED TO COUNTERACT THE FEDERAL GOVERNMENT'S TAXING ROYALTIES PAID BY THE PETROLEUM COMPANIES TO THE ALBERTA GOVERNMENT. IN CONCLUSION, PREMIER LOUGHEED CALLED FOR OTTAWA "TO MAKE MODIFICATIONS IN ITS BUDGET PROVISIONS IN RECOGNITION OF THE ESSENTIAL NEED IN CANADA TO STIMULATE OIL AND GAS EXPLORATION".

4. INDUSTRY REACTION AND COPIES OF THE STATEMENT MADE BY PREMIER LOUGHEED ON THE ALBERTA PETROLEUM EXPLORATION PLAN ARE BEING FORWARDED UNDER SEPARATE COVER.
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